

PORTAGE LAKE WATER & SEWAGE AUTHORITY
HOUGHTON, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL FINANCIAL INFORMATION

June 30, 2008

PORTAGE LAKE WATER & SEWAGE AUTHORITY

JUNE 30, 2008

ADMINISTRATION

Superintendent Lee Hauswirth

BOARD OF TRUSTEES

Chair C. Robert Bailod

Hancock Representatives:

Vice Chair Robert Lewis

Member William Laitila

Houghton Representatives:

Member Robert Megowen

Secretary/Treasurer David Plowe

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the accompanying financial statements of the business-type activities of the Portage Lake Water & Sewage Authority as of and for the year then ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Portage Lake Water & Sewage Authority as of June 30, 2008, and the respective changes in financial position and cash flow thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2008 on our consideration of Portage Lake Water & Sewage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Portage Lake Water & Sewage Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

October 14, 2008

PORTAGE LAKE WATER & SEWAGE AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Business-type Activities</u>
ASSETS	
Current assets:	
Cash and equivalents	\$ 54,162
Investments	131,429
Accounts receivable	4,917
Due from other government units	52,486
Prepaid expense	5,160
Total current assets	<u>248,154</u>
Non-current assets:	
Restricted cash and equivalents	100,000
Restricted investments	365,445
Capital assets	24,765,554
Less: accumulated depreciation	<u>(15,388,334)</u>
Net capital assets	<u>9,377,220</u>
Total non-current assets	<u>9,842,665</u>
Total assets	<u><u>\$ 10,090,819</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 28,691
Accrued interest on bonds	107,280
Other accrued expenses	19,373
Current maturity on bonds	545,000
Total current liabilities	<u>700,344</u>
Non-current liabilities:	
Compensated absences	50,678
Bonds Payable	8,115,000
Total non-current liabilities	<u>8,165,678</u>
Total liabilities	<u>8,866,022</u>
NET ASSETS	
Invested in capital assets, net of related debt	717,220
Contributed capital	3,952,353
Reserved retained earnings	500,004
Unreserved retained earnings	<u>(3,944,780)</u>
Total net assets	<u>1,224,797</u>
Total liabilities and net assets	<u><u>\$ 10,090,819</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
STATEMENT OF ACTIVITIES
JUNE 30, 2008

	<u>Business-type Activities</u>
Operating Revenues	
Charges for services	\$ 1,148,969
Grant revenue	3,235
Other income	61,518
Total operating revenues	<u>1,213,722</u>
 Operating expenses:	
Personnel services	495,053
Utilities	191,537
Repairs and maintenance	61,561
Other supplies and expenses	143,765
Depreciation	966,217
Total operating expenses	<u>1,858,133</u>
 Operating Income (Loss)	<u>(644,411)</u>
 Non-operating revenues (expenses)	
Interest and investment revenue (net of costs)	25,604
Interest expense	(364,062)
Total non-operating revenues (expenses)	<u>(338,458)</u>
 Income (loss) before contributions	(982,869)
Capital contributions	439,150
Change in net assets	(543,719)
Net assets, beginning of the year	1,768,516
Net assets, end of year	<u><u>\$ 1,224,797</u></u>

The accompanying notes to financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,209,560
Payments to suppliers	(419,348)
Payments to employees	(484,600)
Other receipts (payments)	3,235
Net cash provided by operating activities	<u>308,847</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(156,696)
Principal paid on capital debt	(535,000)
Reserves contributions	600,819
Interest paid on capital debt	(343,703)
Net cash (used) by capital and related financing activities	<u>(434,580)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investment securities	(949,078)
Redemption of investment securities	1,011,465
Interest and dividends	25,604
Net cash provided by investing activities	<u>87,991</u>
Net (decrease) in cash and cash equivalents	(37,742)
Cash and cash equivalents - beginning of year	191,904
Cash and cash equivalents - ending of year	<u><u>\$ 154,162</u></u>
Reconciliation of operating income (loss) to net cash provided	
(used) by operating activities:	
Operating income (loss)	\$ (644,411)
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	966,217
Change in assets and liabilities:	
Receivables, net	(927)
Other assets	4,265
Accounts and other payables	(22,485)
Other liabilities	(4,387)
Accrued expenses	10,575
Net cash provided by operating activities	<u><u>\$ 308,847</u></u>

The accompanying notes to financial statements are an integral part of this statement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The following is a summary of the more significant accounting policies of the Portage Lake Water & Sewage Authority:

REPORTING ENTITY

The Portage Lake Water & Sewage Authority entered into a contract with the City of Houghton and the City of Hancock for the acquisition, improvements, enlargement, extension, operation, and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements of the Portage Lake Water & Sewage Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either city. Elements considered in determining that the Authority is not a component unit of the cities are as follows:

1. The Cities are not responsible for the designation of the Authority's management.
2. The Cities do not approve the Authority's annual budget or budget amendments.
3. The Cities do not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The Cities do not have significant fiscal management responsibilities. They do not have a right to receive surplus payments made to the authority and are not responsible for guaranteeing certain debt.
6. The Cities provide no direct on-going financial support to the Water & Sewage Authority.
7. The Cities do not hold title to the physical assets of the Authority.

Financial transactions between the Cities and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounts of the Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The Authority's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

Enterprise Fund - This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net assets is segregated into invested capital (net of related debt) and unrestricted components. Enterprise fund type operating statements present increases and decreases in net total assets.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Basis of Accounting - The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Funds of the Authority are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when incurred.

Other Accounting Policies

Cash And Cash Equivalents - For purposes of the statement of cash flows, cash and equivalents consist of cash on hand and cash in savings and checking accounts.

Restricted assets - Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited.

Receivables and Payables - All receivables are shown net of allowance for uncollectibles.

Inventory - The Authority utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Encumbrances - Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Authority does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, water/sewer improvements, and vehicles are reported in the statement of net assets. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25 years
Sewage systems	15-25 years
Vehicles	7-10 years
Furniture and other equipment	10-15 years

Fund Equity - The unreserved retained earnings is shown as a deficit balance as a result of recording historical and current depreciation expenses. Reserved retained earnings represent the net assets that have been legally identified for specific purposes.

Contributed capital - The Authority follows the policy of reducing contributed capital for an amount equal to the yearly depreciation on assets acquired or constructed with such contributed capital. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not current users through the current rate structure. At June 30, 2008, Federal, State and Local contributed capital of \$10,978,758 has been reduced to \$3,952,353 as of June 30, 2008. The current year amortization is \$439,150.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Long-term Obligations - In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Revenues - Charges to the Cities are recognized based on actual expenditures incurred, adjusted annually based on audited amounts. Operating expenses are allocated to the Cities of Houghton and Hancock based on the number of gallons of flowage processed annually. Expenditures for capital assets, debt principal payments, and other nonoperating type expenditures are charged directly to the Cities using the same allocation basis.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each April, the Plant Superintendent and Administrative Secretary prepare a proposed operating budget for the fiscal year commencing the following July 1, and submit the proposed budget to the Board at the regular May meeting.
2. The Board reviews the proposed budget, which includes proposed expenditures and the means of financing them.
3. Pursuant to statute, the board approves the budget and submits it to the respective municipality's legislative bodies for their records. The final budget is formally adopted at the next board meeting. No budget shall be adopted unless approved by a four-fifths vote of the members-elect of the Board of Trustees.
4. The Board reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
5. Budget appropriations lapse at the end of the fiscal year.

NOTE C - CASH AND INVESTMENTS

As of June 30, 2008 the Authority had the following investments:

Investment Type	Fair Value	Rating
Federal Government Obligations	\$ 496,874	AAA

Michigan law authorizes the Authority to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class Authority, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a Authority.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a Authority. The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE C - CASH AND INVESTMENTS (Continued)

Interest Rate Risk - In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008, 100% of the Authority's bank balance was insured.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

At year-end, the Authority's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the Authority is as follows:

Unrestricted cash	\$	54,162
Restricted cash		100,000
Total cash and cash equivalents		<u>154,162</u>
Investments		131,429
Restricted investments		365,445
Total investments		<u>496,874</u>
Total deposits and investments	\$	<u><u>651,036</u></u>

NOTE D - RECEIVABLES

Receivables from governmental units at June 30, 2008 consist of an amount due from local units in the amount of \$52,486 and accounts receivables in the amount of \$4,917. These receivables are considered 100% collectable and as such, no allowance for uncollectible accounts has been established.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE E - CAPITAL ASSETS

Capital Asset activity of the Authority's governmental activities was as follows:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Land	\$ 384,186	\$ 0	\$ 0	\$ 384,186
Building, tanks etc.	22,166,679	0	0	22,166,679
Land Improvements	52,234	5,805	0	58,039
Equipment	205,748	0	0	205,748
Refunding Debt Discounts	133,968	0	0	133,968
System	1,433,746	150,891	0	1,584,637
Vehicles	232,297	0	0	232,297
Subtotal	<u>24,608,858</u>	<u>\$ 156,696</u>	<u>\$ 0</u>	<u>24,765,554</u>
Accumulated depreciation:				
Building, tanks etc.	13,300,007	\$ 886,667	\$ 0	14,186,674
Land Improvements	18,475	2,699	0	21,174
Equipment	128,723	6,963	0	135,686
Refunding Debt Discounts	19,138	9,569	0	28,707
System	764,999	54,167	0	819,166
Vehicles	190,775	6,152	0	196,927
	<u>14,422,117</u>	<u>\$ 966,217</u>	<u>\$ 0</u>	<u>15,388,334</u>
Net capital assets	<u>\$ 10,186,741</u>			<u>\$ 9,377,220</u>

NOTE F - LONG-TERM DEBT

2005 Advance Refunding

On July 5, 2005 the Authority issued \$9,535,000 of general obligation limited tax refunding bonds to advance refund \$8,990,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to provide for the payment of the principal of, interest on and redemption premium on the 1995 Refunding Bonds. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$1,147,867 and to gain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$1,005,523.

The bond issue matures as indicated below with interest at varying rates of 3.00% to 3.5% per annum. Interest payments started on October 1, 2005, and are payable semi-annually on April 1, and October 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds coming due on and after October 1, 2016, are subject to redemption prior to maturity at the option of the Authority on any date on and after October 1, 2015, from any available moneys, in whole or in part, and if in part, in such principal amounts and from such maturities as the Authority shall determine and within any maturity by lot, at a redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption: The Bonds maturing on October 1, 2007, October 1, 2011, October 1, 2012, October 1, 2013, October 12, 2014, October 1, 2015, October 1, 2016, October 1, 2017, October 1, 2018, October 1, 2019 and April 1, 2021 (the "Term Bonds") are also subject to mandatory sinking fund redemption in part and by lot, on April 1 and October 1 of each of the years and in the amounts set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. Notice of such call shall be given by mailing a notice thereof at least thirty (30) days, but not more than sixty (60) days, prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE F - LONG TERM DEBT (Continued)

Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest	Principal	
2008-2009	\$ 165,308	\$ 270,000	\$ 160,751	\$ 275,000	\$ 871,059
2009-2010	155,939	280,000	151,039	285,000	871,978
2010-2011	146,051	285,000	141,064	290,000	862,115
2011-2012	136,061	290,000	131,059	295,000	852,120
2012-2013	125,822	300,000	120,497	305,000	851,319
2013-2014	114,931	315,000	109,182	320,000	859,113
2014-2015	103,182	325,000	97,089	330,000	855,271
2015-2016	90,819	335,000	84,454	345,000	855,273
2016-2017	77,726	350,000	70,901	355,000	853,627
2017-2018	63,801	365,000	56,501	370,000	855,302
2018-2019	49,009	380,000	41,314	385,000	855,323
2019-2020	33,517	390,000	25,620	400,000	849,137
2020-2021	17,220	405,000	8,715	415,000	845,935
	<u>\$ 1,279,386</u>	<u>\$ 4,290,000</u>	<u>\$ 1,198,186</u>	<u>\$ 4,370,000</u>	<u>\$ 11,137,572</u>

General Obligation Limited Tax Bond, Series 2008

On June 23, 2008 the Authority issued \$1,970,000 of general obligation limited tax refunding bonds purchased by the Michigan Municipal Bond Authority for the purpose of financing certain improvements to the Authority's existing wastewater treatment plant and interceptors including, but not limited to the acquisition and construction of wastewater treatment plant and facilities improvements, new interceptor lines and force mains, upgrading the Hancock lift station with new pumps and generator, and new septage handling facilities, together with all necessary interests in land, appurtenances and attachments.

The bond issue matures as indicated with interest rate of 2.5% per annum. Interest payments started on April 1, 2008, and are payable semi-annually on April 1, and October 1 as indicated.

Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest		
2008-2009	\$ 0	\$ 0	\$ 24,625		\$ 24,625
2009-2010	24,625	75,000	23,687		123,312
2010-2011	23,688	80,000	22,687		126,375
2011-2012	22,688	80,000	21,687		124,375
2012-2013	21,688	85,000	20,625		127,313
2013-2014	20,625	85,000	19,562		125,187
2014-2015	19,563	85,000	18,500		123,063
2015-2016	18,500	90,000	17,375		125,875
2016-2017	17,375	90,000	16,250		123,625
2017-2018	16,250	95,000	15,063		126,313
2018-2019	15,063	95,000	13,875		123,938
2019-2020	13,875	100,000	12,625		126,500
2020-2021	12,625	100,000	11,375		124,000
2021-2022	11,375	105,000	10,062		126,437
2022-2023	10,063	105,000	8,750		123,813
2023-2024	8,750	110,000	7,375		126,125
2024-2028	22,564	590,000	15,185		627,749
	<u>\$ 279,317</u>	<u>\$ 1,970,000</u>	<u>\$ 279,308</u>		<u>\$ 2,528,625</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE F - LONG TERM DEBT (Continued)

Activity of long-term debt was as follows for the year ended June 30, 2008:

	Balance			Balance	Current
	June 30, 2007	Addition	Retirement	June 30, 2008	Maturities
2005 Refunding	\$ 9,195,000	\$ 0	\$ 535,000	\$ 8,660,000	\$ 545,000

NOTE G- SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended June 30, 2008 is as follows:

Operating Revenues	\$1,213,722
Depreciation	\$966,217
Operating Income (Loss)	(\$644,411)
Non-operating Revenue (Expense)	(\$313,833)
Net Income (Loss)	(\$958,244)
Property, Plant and Equipment:	
Additions	\$156,696
Net Working Capital (Deficit)	(\$427,564)
Total Assets	\$10,090,819

NOTE H - PENSION PLAN

Several employees of the Authority are covered under a union administered pension plan. The Authority's contribution is determined by applying a fixed rate to the hours worked by covered employees. The total cost of the pension plan for the year ended June 30, 2008, was \$6,475.

On August 13, 1996, the Authority approved a simplified employee benefit pension plan. The Authority makes contributions to the plan on behalf of its non-union employees. For current year, contributions were made at 8% of gross salary for employees who are over the age of 21 and received at least \$450 in compensation for the year. Total contributions for the year ending June 30, 2008 amounted to \$9,103. The Authority has no liability for the plan beyond its annual contributions.

NOTE I - COMPENSATED ABSENCES

Authority employees generally earn sick leave at the rate of one day per month. Sick leave may be accumulated up to ninety (90) days. In the case of employee death or termination, fifty percent (50%) of any unused sick leave will be paid to the employee or the employee's estate. Upon retirement, one hundred percent (100%) of the unused sick pay will be paid to retirees up to the maximum 90 days. Vacation pay may be accumulated up to twenty-five (25) days.

Vacation pay is accumulated annually based on length of service as follows:

<u>Years of Service</u>	<u>Days of Vacation</u>
1	1 week
2 through 4	2 weeks
5 through 9	3 weeks
10 or more	4 weeks

Total accumulated vacation and sick leave at June 30, 2008, was \$16,987 and \$33,691 respectively.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2008

NOTE J - EQUITY RESERVE

Repair and Maintenance

In 1985, the Authority established a repair and replacement equity reserve account to provide a method for accumulating funds for repairs in excess of \$500 to the aging utility plant. Funds budgeted but unspent and interest earned each year are to be retained by the authority in the reserve for use in future years. The current year's budgeted and expensed amounts for repairs and replacement were \$74,000 and \$39,267 respectively, under the budget amount by \$34,733. During the current year the Authority earned \$8,327 in interest. Therefore the repair and replacement equity reserve accounts at June 30, 2008, were adjusted to reflect the net change of \$43,060, using the cost allocation percentages for each city.

Bond Payments

In 1999, the Authority established a bond payment equity reserve account to provide a method for accumulating funds to avoid large annual changes in charges to the cities for future bond payments. Funds budgeted but unspent each year and interest earned on the bond account is to be retained by the authority in the reserve for use in future years. Likewise, bond payments in excess of budgeted amounts during the year are to be taken from the reserve account. The current year's budgeted and expensed amounts for bond payments were \$877,703 and \$874,437 respectively and interest earned was \$19,041. Therefore the bond payment equity reserve accounts at June 30, 2008, were adjusted to reflect the net change increase of \$22,307, using the cost allocation percentages for each city.

Contingency

A contingency account was established in prior years to provide a reserve for extraordinary expenditures. It was funded by a levy of an additional 10% of the prorated operating costs to each municipality. On May 15, 1979, the Authority approved the change to a flat amount to be determined upon approval of the annual operating budget. No contingency amount was charged to the cities and \$16,000 was utilized for off set expenditures for retirement expenditures for the year ended June 30, 2008.

A summary of changes in Equity Reserve is as follows:

	Balance 07/01/07	Additions	Subtractions	Balance 6/30/08
Repair and Replacement	\$ 157,499	\$ 43,060	\$ 0	\$ 200,559
Bond Payments	256,380	22,307	0	278,687
Contingency	36,758	0	16,000	20,758
Total Equity Reserve	<u>\$ 450,637</u>	<u>\$ 65,367</u>	<u>\$ 16,000</u>	<u>\$ 500,004</u>

NOTE K - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has obtained commercial insurance to handle its risk of loss.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE L - SUBSEQUENT EVENTS

The Authority issued General Obligation Limited Tax Bond, Series 2008 in the amount of \$1,970,000 and purchased by the Michigan Municipal Bond Authority and the State of Michigan acting through the Department of Environmental Quality. See Note F for bond schedule and purpose of bond proceeds. Construction began in July 2008 and is expected to be substantially completed by November 15, 2008 with final completion by December 15, 2008.

SUPPLEMENTAL FINANCIAL INFORMATION

PORTAGE LAKE WATER & SEWAGE AUTHORITY
BUDGET COMPARISON REPORT - MODIFIED ACCRUAL

Year ended June 30, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Wages	\$ 263,300.00	\$ 262,302.07	\$ 997.93
Payroll taxes	27,700.00	30,009.08	(2,309.08)
Employee benefits	87,000.00	89,125.42	(2,125.42)
Administrative expense	77,000.00	92,348.41	(15,348.41)
Office	5,500.00	5,390.01	109.99
Power	159,000.00	158,982.29	17.71
Fuel for heating	19,000.00	17,582.70	1,417.30
Water	1,400.00	1,449.61	(49.61)
Phosphate chemicals	46,000.00	40,670.07	5,329.93
Snow removal and bed prep	7,200.00	6,761.00	439.00
Maintenance parts and supplies	33,000.00	29,889.12	3,110.88
Repair and replacement	74,000.00	39,267.20	34,732.80
Vehicle expense	10,000.00	9,769.41	230.59
Lab and other supplies	15,000.00	15,295.53	(295.53)
Insurance	38,000.00	36,944.00	1,056.00
Telephone	13,400.00	13,522.38	(122.38)
Professional services	22,000.00	22,648.69	(648.69)
Outside lab services	16,000.00	18,785.00	(2,785.00)
Training and travel	2,000.00	1,818.36	181.64
Miscellaneous	0.00	389.52	(389.52)
Total Expenses	916,500.00	892,949.87	23,550.13
Repair and replacement adjustment		34,732.80	(34,732.80)
		927,682.67	
Principal payments		535,000.00	
Bond interest payment		339,436.87	
Bond payment reserve adjustment		22,307.45	
Total Bond Activity	874,358.00	896,744.32	(22,386.32)
Sub-Total	1,790,858.00	1,824,426.99	(33,568.99)
Other income	(62,000.00)	(61,517.85)	(482.15)
Interest income	0.00	(25,603.33)	25,603.33
Grant income	0.00	(3,235.00)	3,235.00
Grant expenses	0.00	6,939.00	(6,939.00)
Repair and replacement interest	0.00	8,326.77	(477.35)
Total	\$ 1,728,858.00	\$ 1,749,336.58	\$ (12,629.16)

PORTAGE LAKE WATER & SEWAGE AUTHORITY
DUE FROM MUNICIPALITIES
Year ended June 30, 2008

	<u>TOTAL</u>	<u>HOUGHTON</u>	<u>HANCOCK</u>
Direct Allocation Percentage		<u>2.85%</u>	<u>1.71%</u>
Usage Allocation Percentage		<u>74.07%</u>	<u>25.93%</u>
Prior Year Due From (To)	\$ 56,476.06	\$ 47,944.59	\$ 8,531.47
Amount billed	1,734,203.26	1,285,972.42	448,230.84
Payments received	<u>(1,753,326.74)</u>	<u>(1,333,917.01)</u>	<u>(419,409.73)</u>
DUE FROM (TO) MUNICIPALITIES PRIOR TO ALLOCATION	<u>\$ 37,352.58</u>	<u>\$ 0.00</u>	<u>\$ 37,352.58</u>
AUDIT ADJUSTMENTS:			
Expense (Revenue) Allocation:			
Operating expenses	\$ 908,949.87	\$ 673,243.72	\$ 235,706.15
Repair & Replacement activity	34,732.80	25,725.99	9,006.81
Repair & Replacement interest	8,326.77	6,167.50	2,159.27
Contingency reserve change	(16,000.00)	(11,850.93)	(4,149.07)
Bond payment activity	3,266.13	2,419.17	846.96
Bond reserve interest	19,041.32	14,103.58	4,937.74
Other income	(61,517.85)	(45,565.23)	(15,952.62)
Grant income	(3,235.00)	(2,396.11)	(838.89)
Grant expenses	6,939.00	5,139.60	1,799.40
Interest income	(25,603.33)	(18,963.95)	(6,639.38)
Interest expense:			
Direct allocation	15,477.78	9,669.17	5,808.61
Usage allocation	<u>323,959.09</u>	<u>239,950.99</u>	<u>84,008.10</u>
Total Expense (Revenue) Allocation	<u>1,214,336.58</u>	<u>897,643.50</u>	<u>316,693.08</u>
Debt Payments:			
Bond Principal Payment			
Direct allocation	24,395.15	15,239.97	9,155.18
Usage allocation	<u>510,604.85</u>	<u>378,196.33</u>	<u>132,408.52</u>
Total bond payments	<u>535,000.00</u>	<u>393,436.30</u>	<u>141,563.70</u>
Total Expense/Revenue and Debt Payments	1,749,336.58	1,291,079.80	458,256.78
Amount billed	<u>(1,734,203.24)</u>	<u>(1,285,972.40)</u>	<u>(448,230.84)</u>
Billed (over) under	15,133.34	5,107.40	10,025.94
Due from Municipalities prior to adjustments	<u>37,352.58</u>	<u>0.00</u>	<u>37,352.58</u>
DUE FROM MUNICIPALITIES AT END OF YEAR	<u>\$ 52,485.92</u>	<u>\$ 5,107.40</u>	<u>\$ 47,378.52</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
SCHEDULE OF GALLONS PROCESSED
Year ended June 30, 2008

	<u>Total</u>	<u>Usage Allocation Percentage</u>
Gallons:		
Houghton	601,581,650	74.07%
Hancock	210,617,000	25.93%
TOTALS	<u>812,198,650</u>	<u>100.0000%</u>

FLOWAGE (GALLONS)

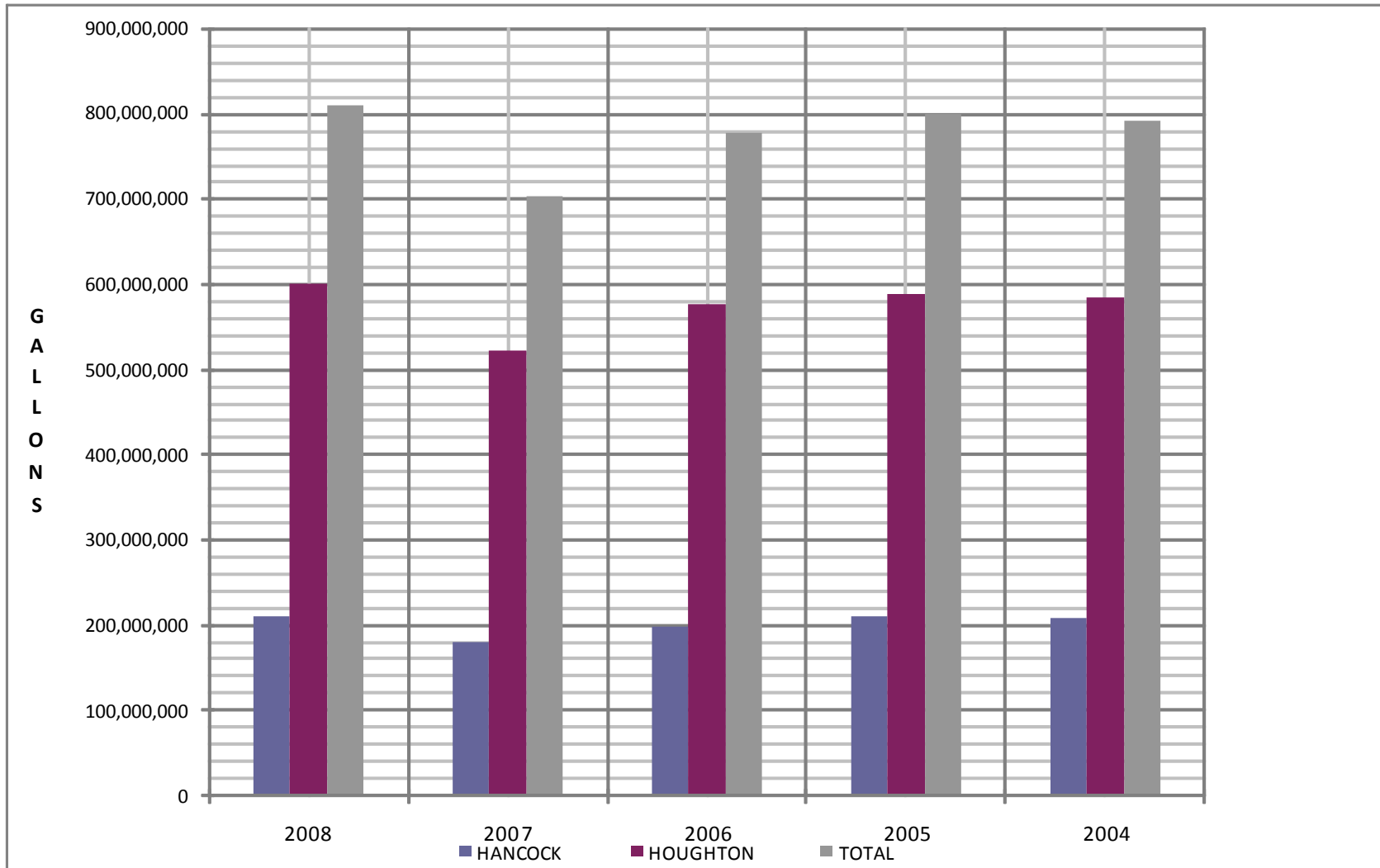
HOUGHTON	<u>2006-07</u>	<u>2007-08</u>	<u>Variance Increase (Decrease)</u>
July	40,434,490	37,233,490	(3,201,000)
August	35,523,490	34,908,490	(615,000)
September	37,599,700	57,418,700	19,819,000
October	41,582,490	76,513,490	34,931,000
November	35,251,700	43,201,700	7,950,000
December	43,476,490	46,030,490	2,554,000
January	43,761,490	45,213,490	1,452,000
February	38,300,120	41,054,120	2,754,000
March	63,004,490	41,546,490	(21,458,000)
April	62,327,700	86,267,700	23,940,000
May	42,576,490	53,961,490	11,385,000
June	38,779,700	38,232,000	(547,700)
	<u>522,618,350</u>	<u>601,581,650</u>	<u>78,963,300</u>

HANCOCK	<u>2006-07</u>	<u>2007-08</u>	<u>Variance Increase (Decrease)</u>
July	14,779,000	11,765,000	(3,014,000)
August	11,733,000	10,765,000	(968,000)
September	11,894,000	17,469,000	5,575,000
October	13,956,000	28,295,000	14,339,000
November	12,816,000	15,276,000	2,460,000
December	15,239,000	16,658,000	1,419,000
January	15,632,000	16,513,000	881,000
February	12,366,000	14,152,000	1,786,000
March	24,444,000	15,730,000	(8,714,000)
April	23,036,000	31,032,000	7,996,000
May	14,722,000	20,077,000	5,355,000
June	11,544,000	12,885,000	1,341,000
	<u>182,161,000</u>	<u>210,617,000</u>	<u>28,456,000</u>

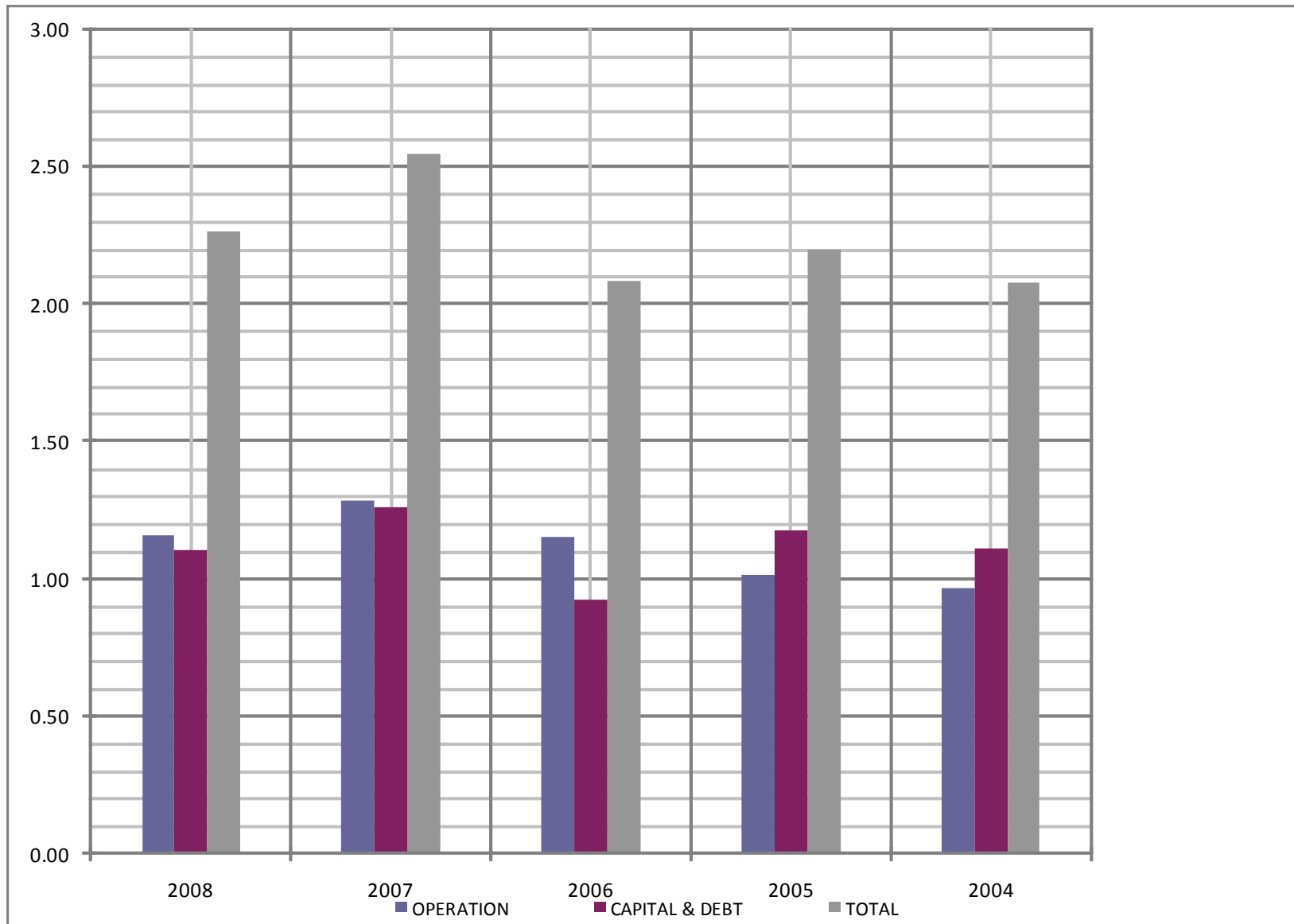
PORTAGE LAKE WATER & SEWAGE AUTHORITY
CONTRIBUTION AND RESERVE ALLOCATIONS
Year ended June 30, 2008

		<u>HOUGHTON</u>	<u>HANCOCK</u>
Direct Bond Amounts			
Rehabilitation costs incurred directly		\$ 370,546.00	\$ 197,776.00
Legal costs incurred directly		0.00	24,824.00
Total Direct Bond Amounts		<u>\$ 370,546.00</u>	<u>\$ 222,600.00</u>
Direct Allocation %		<u>2.85%</u>	<u>1.71%</u>
Usage Allocation %		<u>74.07%</u>	<u>25.93%</u>
Bond Principal Payment	<u>\$ 535,000.00</u>		
Allocation of direct		\$ 14,670.25	\$ 8,812.93
Allocation by usage		364,476.92	127,039.89
Bond Principal Payment Allocation		<u>\$ 379,147.17</u>	<u>\$ 135,852.82</u>
Bond Interest Payment	<u>\$ 339,436.87</u>		
Allocation of direct portion		\$ 9,669.17	\$ 5,808.61
Allocation by usage percentage		239,950.99	84,008.10
Bond Interest Payment Allocation		<u>\$ 249,620.16</u>	<u>\$ 89,816.71</u>
CONTRIBUTION SUMMARY			
Beginning Balance		\$ 3,919,123.63	\$ 1,870,141.06
Bond Principal Payment Allocation		393,436.30	141,563.70
Ending Balance		<u>\$ 4,312,559.93</u>	<u>\$ 2,011,704.76</u>
REPAIR AND MAINTENANCE RESERVE			
(Usage Allocation Percentages)			
Beginning Balance		\$ 109,032.64	\$ 48,466.90
Budget amount	\$ 74,000.00		
Repair & Replacement Expenses	(39,267.20)		
Expenditures under (over) budget	<u>\$ 34,732.80</u>	25,725.99	9,006.81
Interest income	<u>\$ 8,326.77</u>	6,167.50	2,159.27
Repair & Replacement reserve expenditures	<u>\$ 0.00</u>	0.00	0.00
Ending Balance		<u>\$ 140,926.13</u>	<u>\$ 59,632.98</u>
BOND PAYMENT RESERVE			
(Usage Allocation Percentages)			
Beginning Balance		\$ 188,508.49	\$ 67,870.59
Budget amount	\$ 877,703.00		
Bond Payment - Principal & Interest	(874,436.87)		
Expenditures under (over) budget	<u>\$ 3,266.13</u>	2,419.17	846.96
Interest income	<u>\$ 19,041.32</u>	14,103.58	4,937.74
Ending Balance		<u>\$ 205,031.24</u>	<u>\$ 73,655.29</u>
CONTINGENCY RESERVE			
(Usage Allocation Percentages)			
Beginning Balance	\$ 36,758.84	\$ 18,752.44	\$ 18,006.40
Use of contingency funds (retirement payout)	(16,000.00)	(11,850.93)	(4,149.07)
Interest income	<u>\$ 20,758.84</u>	<u>\$ 6,901.51</u>	<u>\$ 13,857.33</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
FLOWAGE ANALYSIS
Year ended June 30, 2008



PORTAGE LAKE WATER & SEWAGE AUTHORITY
NET OPERATING COST PER 1,000 GALLONS
Year ended June 30, 2008





Bruce A. Rukkila, CPA, PC

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the accompanying financial statements of the business-type activities of the Portage Lake Water & Sewage Authority as of and for the year then ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated October 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements is more than inconsequential and will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Portage Lake Water & Sewage Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Portage Lake Water & Sewage Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Portage Lake Water & Sewage Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

October 14, 2008

PORTAGE LAKE WATER & SEWAGE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2008

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Portage Lake Water & Sewage Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Portage Lake Water & Sewage Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by personnel, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Portage Lake Water & Sewage Authority to perform this task internally.

Effect: As a result of this condition, the Portage Lake Water & Sewage Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Portage Lake Water & Sewage Authority has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Portage Lake Water & Sewage Authority to out source this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition: The Authority has relied on its external auditor to maintain and update capital assets for the Authority.

Cause: Due to the lack of knowledge, expertise and education relative to computing depreciation, management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

Effect: The Authority has relied on external auditor to update capital asset listings for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Authority.

View of Responsible Officials: A copy of the capital asset information will be provided to the Authority, which will allow the Authority to assume this responsibility in the future.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2008

2008-3 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the Authority consider some of the following procedures:

- ▶ Bank statements should be received by someone other than the administrative secretary, opened, inspected, and then provided to the administrative secretary to perform the reconciliation function; the reconciliation could subsequently be initialed by a second individual after it is complete.

Cause, Condition and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The Authority relies on its bookkeeper for its general ledger accounting functions.

View of Responsible Officials: The Authority understands it needs to be aware of this situation and maintain oversight of its financial records.

2008-4 – Adjustments Proposed by the Auditor

Criteria: The Authority is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the Authority's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the Authority's general ledger, but are also required to communicate our part in completing the Authority's accounting records. A number of these journal entries are related to accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The Authority will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Superintendent.



Bruce A. Rukkila, CPA, PC

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October 14, 2008

Members of the Board
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Portage Lake Water & Sewage Authority for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Portage Lake Water & Sewage Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Portage Lake Water & Sewage Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Portage Lake Water & Sewage Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Portage Lake Water & Sewage Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is management's estimate of the useful lives of capital assets, used to calculate depreciation. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Portage Lake Water & Sewage Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Portage Lake Water & Sewage Authority Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Portage Lake Water & Sewage Authority. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

In planning and performing our audit of the financial statements of the Portage Lake Water & Sewage Authority, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Portage Lake Water & Sewage Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Portage Lake Water & Sewage Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Portage Lake Water & Sewage Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the personnel, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Portage Lake Water & Sewage Authority to perform this task internally.

Effect: As a result of this condition, the Portage Lake Water & Sewage Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Portage Lake Water & Sewage Authority has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Portage Lake Water & Sewage Authority to out source this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition: The Authority has relied on its external auditor to maintain and update capital assets for the Authority.

Cause: Due to the lack of knowledge, expertise and education relative to computing depreciation, management has made the decision that it is in their best interest to have their external auditor maintain fixed assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

Effect: The Authority has relied on external auditor to update fixed asset listings for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Authority.

View of Responsible Officials: A copy of the capital asset information will be provided to the Authority, which will allow the Authority to assume this responsibility in the future.

2008-3 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the Authority consider some of the following procedures:

- ▶ Bank statements should be received by someone other than the administrative secretary, opened, inspected, and then provided to the administrative secretary to perform the reconciliation function; the reconciliation could subsequently be initialed by a second individual after it is complete.

Cause, Condition and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The Authority relies on its administrative secretary for its general ledger accounting functions.

View of Responsible Officials: The Authority understands it needs to be aware of this situation and maintain oversight of its financial records.

2008-4 – Adjustments Proposed by the Auditor

Criteria: The Authority is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the Authority's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the Authority's general ledger, but are also required to communicate our part in completing the Authority's accounting records. A number of these journal entries are related to accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The Authority will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Superintendent.



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October 14, 2008

Members of the Board
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Portage Lake Water & Sewage Authority for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Portage Lake Water & Sewage Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Portage Lake Water & Sewage Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Portage Lake Water & Sewage Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Portage Lake Water & Sewage Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is management's estimate of the useful lives of capital assets, used to calculate depreciation. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Portage Lake Water & Sewage Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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We appreciate your business, thank you.

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INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

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View of Responsible Officials: The Portage Lake Water & Sewage Authority has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Portage Lake Water & Sewage Authority to out source this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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As part of our audit, we considered the internal controls of the Portage Lake Water & Sewage Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

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Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Portage Lake Water & Sewage Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Portage Lake Water & Sewage Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

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Effect: As a result of this condition, the Portage Lake Water & Sewage Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Portage Lake Water & Sewage Authority has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Portage Lake Water & Sewage Authority to out source this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

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Significant Audit Findings

Qualitative Aspects of Accounting Policies

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We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Portage Lake Water & Sewage Authority for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Portage Lake Water & Sewage Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Portage Lake Water & Sewage Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Portage Lake Water & Sewage Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Portage Lake Water & Sewage Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is management's estimate of the useful lives of capital assets, used to calculate depreciation. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Portage Lake Water & Sewage Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Portage Lake Water & Sewage Authority Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Portage Lake Water & Sewage Authority. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

In planning and performing our audit of the financial statements of the Portage Lake Water & Sewage Authority, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Portage Lake Water & Sewage Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the Portage Lake Water & Sewage Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Portage Lake Water & Sewage Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the personnel, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Portage Lake Water & Sewage Authority to perform this task internally.

Effect: As a result of this condition, the Portage Lake Water & Sewage Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Portage Lake Water & Sewage Authority has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Portage Lake Water & Sewage Authority to out source this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition: The Authority has relied on its external auditor to maintain and update capital assets for the Authority.

Cause: Due to the lack of knowledge, expertise and education relative to computing depreciation, management has made the decision that it is in their best interest to have their external auditor maintain fixed assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

Effect: The Authority has relied on external auditor to update fixed asset listings for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Authority.

View of Responsible Officials: A copy of the capital asset information will be provided to the Authority, which will allow the Authority to assume this responsibility in the future.

2008-3 - Segregation of Duties

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the Authority consider some of the following procedures:

- ▶ Bank statements should be received by someone other than the administrative secretary, opened, inspected, and then provided to the administrative secretary to perform the reconciliation function; the reconciliation could subsequently be initialed by a second individual after it is complete.

Cause, Condition and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The Authority relies on its administrative secretary for its general ledger accounting functions.

View of Responsible Officials: The Authority understands it needs to be aware of this situation and maintain oversight of its financial records.

2008-4 – Adjustments Proposed by the Auditor

Criteria: The Authority is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the Authority's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the Authority's general ledger, but are also required to communicate our part in completing the Authority's accounting records. A number of these journal entries are related to accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The Authority will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Superintendent.



Bruce A. Rukkila, CPA, PC

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October 14, 2008

Members of the Board
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Portage Lake Water & Sewage Authority for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008. Professional standards require that we provide you with the following information related to our audit.

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As part of our audit, we considered the internal controls of the Portage Lake Water & Sewage Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Portage Lake Water & Sewage Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Portage Lake Water & Sewage Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Portage Lake Water & Sewage Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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